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## Discussion Paper: ESG Disclosure and Diligence Practices for the European Securitisation Market

### March 2021

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#### Introduction

AFME and its members acknowledge that ESG factors, which are commonly recognised as the pillars of sustainability, are an increasingly urgent focus for investors in the context of capital markets offerings, including for securitisation transactions. In addition, policymakers have given strong indications that ESG considerations will be increasingly important in regulatory analysis and decision-making in the coming months and years.

The EU has been actively focused on promulgating policies and regulation focused on environmental and social objectives, underpinned by good governance, including the Taxonomy Regulation for Sustainable Activities (the “EU Taxonomy”)<sup>1</sup>. As part of the Capital Markets Recovery Package in 2020, the EU has also introduced legislation to integrate sustainability into the wider securitisation framework. Standards will be developed to report on the sustainability of securitisation products and the EBA will draft a proposal for a dedicated framework for sustainable securitisation in 2021.

It is becoming increasingly evident that key to the development of the market for sustainable finance, including sustainable securitisation, both in the EU and in the UK, is the investor’s ability to perform due diligence on ESG factors and the issuer’s (or originator’s) ability to provide clear, transparent disclosure related to such ESG factors that would be material to the investment decision. A pre-requisite for a securitisation issuer to disclose data relevant to ESG factors is that it needs to be defined, measurable, collectible, evidence-based and reliable. This, in turn, requires the information to be subject to appropriate governance and internal procedures and controls.

To date however, the approach to ESG-factor disclosures has largely been driven by the requirements of individual investors, often when the deal is already being marketed, which may mean that issuers are either dealing with conflicting requests for ESG-related information or are unable to answer some of the investors’ questions in a timely manner or at all. This lack of a common standard, together with limited supply of underlying ESG collateral, are today the key challenges for future development of the sustainable securitisation market<sup>2</sup>.

Finally, as the market moves to a world where investors and asset managers need to demonstrate that they have considered ESG factors for *all* investments, not just those labelled ‘green’ or ‘sustainable’, the information provided by issuers must not only satisfy investor due diligence requirements under the EU Securitisation Regulation<sup>3</sup>, which has also now been onshored into the UK, but also meet broader ESG-related disclosures.

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<sup>1</sup> Regulation (EU) (2020/852) on the establishment of a framework to facilitate sustainable investment

<sup>2</sup> Please also see AFME response to the EC Consultation on Renewed Sustainable Finance Strategy ([here](#))

<sup>3</sup> Regulation (EU) (2017/2402) of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation.

This paper aims to discuss:

- how securitisation can contribute to the development of sustainable finance;
- the current regulatory status of the disclosures and due diligence requirements for securitisation; and
- which ESG factors are important in the context of securitisation.

It then seeks to provide a suggested framework for market participants' ESG due diligence with respect to securitisation transactions.

## **Securitisation has huge potential to contribute to sustainable finance in the post-pandemic economic recovery**

As we focus on strategies to tackle the economic impact of the coronavirus pandemic, it is increasingly evident that the hoped-for economic recovery is an opportunity to promote a restructuring of economic activity and business models in line with the objectives of sustainability and the Green Deal<sup>4</sup>. The pandemic has also put a greater spotlight on social finance (the "S" in ESG): for example, issuance of bonds which help finance the efforts to fight the pandemic. This process will no doubt require additional, substantial funding. Even before the pandemic, the European Commission has acknowledged that "green securitisations and collaboration between banks and investors could play an important role in financing the transition [to sustainable finance] as banks' balance sheet space might be too limited to overcome the green finance gap."<sup>5</sup> The potential of green securitisation as a way "to mobilise capital to transition to a greener economy"<sup>6</sup> has been also recognised by the Sustainable Finance Study Group co-chaired by the Bank of England. In March 2021, it was announced that the Bank's monetary policy committee would also be given a new duty to support the UK government's net zero carbon ambition.

Securitisation in its different forms allows capital market investors to contribute to specific projects and activities in a risk-appropriate manner. It also constitutes an important tool for financial institutions in managing capital, leverage and funding. It provides banks and other originators with a tool for transferring assets out of their balance sheets, thus increasing their capacity for lending to ESG projects; and by pooling together ESG loans which are then financed by more liquid securities, securitisation gives investors access to sustainable investments financing newly built energy efficient houses, residential and commercial rooftop solar energy loans, loans for home insulation, SME loans for sustainable projects, mortgage and other loans for social housing provision and small scale infrastructure projects.

In this context, Asset Backed Commercial Paper (ABCP) programmes - a type of short-term securitisation funding - will also play an important role in (re)financing assets that provide environmental benefits, especially when it comes to financing transitional assets. Trade receivables financing through ABCP Conduits is mainly used to finance and refinance the working capital of corporates, thus providing funding to the real economy and often to green activities and helping them transition to a more sustainable business model. Some corporates are already active in green sectors, so their trade receivables related to green activities could be considered as green. However, other corporates in different stages of transition to a more sustainable business model (as evidenced by ESG KPIs and science-based targets, audited by an independent opinion provider) should be able to securitise their trade receivables under a transitional framework.

In its report published on 10 June 2020, the High-Level Forum on Capital Markets Union (CMU) noted that securitisation has enormous potential "to advance capital markets union and green finance". It estimated that the need for new RMBS issuance in the next 5-10 years is €800bn<sup>7</sup>. Even if only part of that sum is destined for the ESG market, securitisation's contribution to sustainable projects could be considerable.

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<sup>4</sup> CMU High Level Forum Report p. 50

<sup>5</sup> EC Consultation Paper on Renewed Sustainable Finance Strategy

<sup>6</sup> HM Government Green Finance Strategy (2019) ([here](#))

<sup>7</sup> [https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/growth\\_and\\_investment/documents/200610-cmu-high-level-forum-final-report\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/growth_and_investment/documents/200610-cmu-high-level-forum-final-report_en.pdf)

One example is the market for securitisations of residential rooftop solar energy loans, which has developed significantly in other jurisdictions and in the US has on average exceeded \$2bn of issuance each year since 2018<sup>8</sup>. Therefore, ensuring that the securitisation market can flourish will be central to achieving the goal of growth in ESG projects and activities.

### **Current regulatory status of disclosures and due diligence requirements for securitisation**

All securitisations in the EU are today regulated by the EU Securitisation Regulation<sup>9</sup>, which has been onshore into the UK, and which already sets out the highest due diligence and disclosure standards for securitisation anywhere in the world, including (for “STS” labelled securitisations) the disclosure of available information related to environmental performance of “residential loans or auto loans or leases” under Article 22(4)<sup>10</sup>.

The EU Securitisation Regulation is expected to undergo a review by 1 January 2022<sup>11</sup> which is likely to introduce further ESG related disclosures into the framework.

The recently agreed EU Capital Markets Recovery Package for Securitisation (CMRP)<sup>12</sup>, which includes amendments to the EU Securitisation Regulation<sup>13</sup> introduces a mandate for the EBA to publish a report by 1 November 2021 on developing a specific sustainable securitisation framework “for the purpose of integrating sustainability-related transparency requirements”<sup>14</sup> into the EU Securitisation Regulation. The EBA shall assess, in particular, the implementation of proportionate disclosure and due diligence requirements relating to sustainability factors; and how to give shape to a specific sustainable securitisation framework that mirrors or draws upon EU Disclosures Regulation<sup>15</sup> and takes into account the EU Taxonomy Regulation. Based on the EBA report, the European Commission will, as a part of the wider review of the EU Securitisation Regulation, submit its report to the European Parliament and the Council on the creation of a specific sustainable securitisation framework, together with a legislative proposal if appropriate.

In addition to the EBA Report, the CMRP encourages STS securitisations to publish, from 1 June 2021 onwards, available information related to sustainability factors of the assets financed by the underlying exposures and it introduces a mandate for the Joint Committee of ESAs to draft regulatory technical standards on the content, methodologies and presentation of this information.

A future sustainable securitisation framework is therefore expected to draw upon the EU Taxonomy and the EU Sustainable Finance Disclosure Regulation, which in the EU’s policy context, together provide a framework for defining legally sustainable activities and establishing sustainability-related disclosures in financial services. The EU Taxonomy will be particularly important in providing a standardised approach to the measurement of the environmental impact of the economic activity supported by the investment being sought. However, its criteria are difficult to satisfy today, narrowing down the potential pool of assets compliant with the EU Taxonomy which can be securitised.

While further disclosure of information will be key to the development of a market in investing in sustainable securitisation, it is important to note that much work has already been undertaken to subject securitisation transactions to a high level of disclosure and due diligence requirements under the EU Securitisation Regulation. It is therefore important that this high level of disclosure is maintained to enable investors to perform their due diligence and ongoing monitoring transactions, and only where necessary should this be

<sup>8</sup> Source: Finsight <https://finsight.com/esoteric-solar-abs-bond-issuance-overview?products=ABS&regions=USOA>

<sup>9</sup> Regulation (EU) 2017/2402; <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32017R2402>

<sup>10</sup> Art.22 (4) of the Securitisation Regulation

<sup>11</sup> Art. 46 of the EU Securitisation Regulation

<sup>12</sup> [https://www.consilium.europa.eu/en/press/press-releases/2020/12/16/capital-markets-recovery-package-council-confirms-targeted-amendments-to-eu-capital-market-rules/?utm\\_source=dsms-auto&utm\\_medium=email&utm\\_campaign=Capital+Markets+Recovery+Package%3a+Council+confirms+targeted+amendments+to+EU+capital+market+rules](https://www.consilium.europa.eu/en/press/press-releases/2020/12/16/capital-markets-recovery-package-council-confirms-targeted-amendments-to-eu-capital-market-rules/?utm_source=dsms-auto&utm_medium=email&utm_campaign=Capital+Markets+Recovery+Package%3a+Council+confirms+targeted+amendments+to+EU+capital+market+rules)

<sup>13</sup> <https://www.consilium.europa.eu/media/47471/st13798-ad03-en20.pdf>

<sup>14</sup> Art.45a of the Amendment to the EU Securitisation Regulation

<sup>15</sup> Regulation on sustainability-related disclosures in the financial services sector (2019/2088)’

supplemented by further relevant ESG data to enable investors to assess and monitor the ESG attributes of securitisation transactions. At the same time, a balance also needs to be struck with the need not to unduly overburden issuers, given the high standards already prevailing.

### **Which ESG factors are important in the context of securitisation?**

There is general agreement among most standard-setters that the pillars of sustainability are environmental objectives, social objectives and good governance. However, whilst the EU Taxonomy Regulation provides a definition for what “environmentally sustainable” means for certain economic activities, there is to date no single universal definition of those three factors. The examples of ESG factors that are common across various definitions and practices for financial and non-financial firms include climate change factors in the area of environment (including greenhouse gas emissions, biodiversity and water use and consumption); human rights, labour and workforce considerations in the area of social; and rights and responsibilities of senior staff members and remuneration in the area of governance (see Table 1)<sup>16</sup>.

When assessing ESG factors for securitisations investors typically consider both the securitisation portfolio (e.g. green mortgages, SME loans to energy efficient projects; see Table 2 for further examples) and the key transaction counterparties (in particular, the originator and servicer). It is therefore how the performance of the assets aligns to environmental and/or social objectives, and how these are underpinned by good governance, that is most relevant for consideration when evaluating a securitisation transaction.

The assessment of the “use of proceeds” should not therefore be necessary for a securitisation because each transaction by its nature will securitise a ring-fenced pool of assets. However, it should be noted that there is no legislative rule at this stage that excludes the “use of proceeds” assessment, so investors could still seek to apply the “use of proceeds” route. Such transactions relying on “use of proceeds” may qualify for the wider “green” or “sustainable” bond label, whereas, the label “sustainable securitisation” should be reserved exclusively for transactions collateralised by ESG assets and should not apply to securitisations which rely solely on the use of proceeds raised<sup>17</sup>.

We acknowledge however, that the market will only grow if room is made for, and there is engagement with, transitioning assets as currently there is limited availability of ESG underlying collateral. Many transitioning assets satisfy the criteria to be considered as ‘green’ under the EU Taxonomy, which envisages that a project or economic activity can be green where the underlying activity results in a significant improvement in performance (we note the technical annex thereto suggests a 30% benchmark against baselines for renovations and other types of projects). We agree with this gradualist and inclusive approach and see it as crucial in an ESG securitisation context to support the origination of sufficient assets to develop a functioning ESG securitisation market.

The detailed asset specific disclosure required under the EU Securitisation Regulation means that a lot of data is already provided to investors. In the area of securitisation, when considering the performance and contribution of assets to environmental and/or social objectives, and how these are underpinned by good governance, specific ESG factors and related data to be considered may include the following.

#### ***Environmental:***

The asset-specific disclosures already provided under the EU Securitisation Regulation are wide enough to cover most if not all of what is needed for investors to assess environmental factors and how a positive contribution of the performance of the assets towards environmental objectives might be measured, for example:

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<sup>16</sup> See the EBA Discussion Paper on Management and Supervision of ESG risks [ para 26]

<sup>17</sup> Please see AFME Position Paper “Principles of Developing Green Securitisation Market in Europe” ([here](#))

- Environmental performance of assets financed by the securitisation (applies to residential mortgages and auto loans and leases);
- Analysis of risks related to climate change, biodiversity and ecological impacts based on the information already provided on the underlying portfolio (e.g. an auto ABS deal with all petrol and diesel vehicles will be associated with GHG emissions); and
- Compliance with relevant environmental laws, regulations, licences/permits (based on the information already provided under the representations and warranties in transaction documentation).

Other relevant environmental data for the securitised portfolio may include, for instance:

- For RMBS transactions - are the loans financing newly-built eco-homes and/or home improvements such as solar panels and insulation? Is there an EPC label/data available? Are there smart meters or heat pumps on the property, are there flooding/coastal erosion/subsidence risks linked to postcode?<sup>18</sup>
- For CMBS transactions – is there a BREEAM<sup>19</sup> or equivalent rating;
- For auto ABS – information on the split between diesel, petrol, electric and hybrid cars included in the portfolio; emission data for non-electric cars;
- For corporate and SME Loans – relevant environmental data relating to the underlying companies, such as industry (e.g. production of organic foods), net carbon emissions or carbon intensity of revenue.

### **Social:**

In the absence of a “Social Taxonomy”, what a “social” objective is and how a positive contribution towards it might be measured is more difficult to define. Given the wide range of topics that could be considered to be “social factors”, how an investor rates “social” objectives may be more subjective - for instance one investor may prioritise whether a lender is increasing financial access to marginalised groups whilst another may be solely concerned with the profitability of the lender’s portfolio of customers. Even if the desired social impact is determined, then measuring that in real terms can also be difficult; how is the real social impact of a project monitored? It will therefore be important that issuers (sponsors or originators) provide a detailed description of how they originate and service the underlying assets. For instance, the following questions could be considered:

- Assessment of whether a transaction improves social infrastructure (social housing, schools, hospitals, community hubs etc.);
- Assessment of whether a defined demographic receives a clearly defined social benefit;
- Assessment of any community relations projects, education and/or social awareness relating to the company's services/products (e.g. student loans, financing not-for profit organisations);
- Policies and procedures related to customer welfare, origination and underwriting standards, product safety and exposure to social impacts;
- Adherence to a key performance indicator such as a minimum or living wage, or pay gap standards;
- Positive health impact or improved educational standards;
- Assessment of how social considerations are assessed in the servicing of NPLs, particularly consumer NPLs;
- Formal policies related to health and safety, anti-discrimination, diversity and inclusivity, human rights and exclusion of child or forced labour;
- Policies related to workplace incidents (including record keeping /statistics); and Social related complaints/claims/enforcement actions associated with employees or key stakeholders.

### **Governance:**

The “governance” questions for originators and servicers will be aimed primarily at unlisted companies because publicly available information for these companies is often limited. Information for publicly listed originator and servicers is already widely available from the variety of sources and so it may not be necessary

<sup>18</sup> Note this data would only be disclosed if there’s a material impact on credit performance of the assets

<sup>19</sup> Building Research Establishment Environmental Assessment Method (link [here](#))

for publicly listed originators and servicers to provide more information. The following governance considerations could be considered:

- Data privacy and security policies and related issues;
- Material complaints and/or any litigation regarding how the company conducts its business;
- Composition of the board of directors (e.g. number of women, independent and ethnic minority directors);
- Standards related to minority shareholder informational and voting rights;
- Level of direct board responsibilities for ESG matters;
- Adequate policies to safeguard against illegal practices (including, but not limited to, corruption and fraud) and any history related to such incidents;
- Corporate governance and/or ethical related enforcement/litigation or employee claims or breaches related to issues such as anti-bribery, corruption, unfair labour practices, human rights abuses, and other malpractices;
- Relevant information on the originator's auditor, including any material disputes between the company and its auditor, and/or any material restatement of the company's financial statements; and
- Has the originator and/or servicer been subjected to any material sanctions by their regulator in the last 2 years and is any penalty still ongoing?

## **Disclosures and Due diligence**

Investors need to consider the ESG factors for all transactions, not just for those labelled as 'green' or 'sustainable', therefore the information that issuers disclose is necessary not just to comply with the EU Securitisation Regulation but also to allow investors to assess any relevant ESG factors in light of their broader ESG-related obligations, for instance under the EU Sustainable Finance Disclosures Regulation. Investors will also expect to examine, as part of the disclosure package, the originator's track-record and forward-looking business plans to ensure that ESG principles are enshrined in the originator's policies and strategies.

Absent a single ESG securitisation standard at this stage, issuers must focus on transparency and clear disclosure that meets investors' evolving due diligence requirements. The due diligence exercise should be driven by materiality considerations, and should be designed to verify disclosure. A pragmatic, balanced and proportional approach is required. Unduly burdening issuers and investors risks undermining ESG goals.

Diligence of ESG factors should, generally, be subject to the same types of procedures and considerations as due diligence of other factors, and parties should carefully consider what information is generally material for disclosure to investors, to assess the risks related to the specific securitisation transaction.

In order to ensure consistency of ESG disclosure and due diligence, AFME encourages parties to consider the following recommendations (on an "if available" basis):

- Ensure that references to the ESG aspects of the securitisation are clear and understandable, for instance:
  - the title of the bonds can include "green" (e.g. "Senior Secured Green Notes due 2025"), "sustainable" or other relevant ESG criteria;
  - an issuer may include a statement on the front cover of the offering circular (e.g. "The Notes are being issued as green securitisation bonds in accordance with our green bond framework" or other relevant standards);
- Ensure that relevant ESG factors are addressed in the prospectus /offering documentation, such as:
  - the statistical data in the Prospectus should include ESG details of the underlying assets e.g. within the stratification tables of the assets;
  - relevant ESG considerations should be considered with respect to asset impairment, changes in useful life (depreciation/ amortisation) or fair valuation of assets, and provisions (contingent liabilities, transitional costs);

- Ensure that any material ESG-related risks that have impact on credit performance of the assets underlying the securitisation transaction are reflected in the risk factors section;
- Ensure that, if applicable, any relevant definitions (e.g. for "Eligible Green Projects") are provided;
- Ensure that information on how the issuer identifies and selects appropriate ESG assets or projects is available;
- Ensure that details of any third-party opinion obtained to verify the securitisation complies with ESG factors is provided. Any details on parties providing verification for any post-issuance reporting should also be included where applicable;
- Ensure that all the information related to how performance of the underlying assets aligns to environmental and/or social objectives, and how these are underpinned by good governance is provided;
- Ensure a reporting standard for originators across an asset class, for example via investor reports, to ensure a level of homogeneity in ongoing disclosure provided to investors and to lessen the reporting burden on originators;
- If applicable, ensure that information relevant to transitioning assets is provided.

## Conclusions

We strongly believe that securitisation has huge potential to contribute to sustainable finance in the post-pandemic economic recovery. Although the market for ESG securitisation is still relatively small, we note that there is strong investor demand as well as a growing supply of ESG securitisation bonds: in July 2020, Crédit Agricole CIB arranged its first green ABCP note (La Fayette Asset Securitisation LLC) and in January 2021 we saw the first "social" labelled RMBS transaction (Gemgarto 2021-1) from Kensington Mortgages.

The two elements which are important for this market to flourish are: first, a sufficiently large pool of assets available for ESG securitisation and second, a common ESG standard for disclosure and due diligence.

As originators transition to more sustainable business models, pools of suitable assets will increase naturally over time. As for ESG disclosures and due diligence, the already very high standards required under the EU Securitisation Regulation provide a strong starting base from which to develop, where necessary, further relevant ESG data.

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**TABLE 1**  
**Examples of ESG factors included in the most commonly-used frameworks**

Source	Environmental	Social	Governance
International Frameworks	<ul style="list-style-type: none"> <li>○ GHG emissions</li> <li>○ Energy use and efficiency</li> <li>○ Air pollutants</li> <li>○ Water use</li> <li>○ Waste management (water, solid, hazardous)</li> <li>○ Use of ecosystems – impact and dependence</li> <li>○ Innovation in environment-friendly products and services</li> </ul>	<ul style="list-style-type: none"> <li>○ Workforce</li> <li>○ Workplace health and safety</li> <li>○ Customer health and safety</li> <li>○ Diversity and equal opportunity</li> <li>○ Poverty and community impact</li> <li>○ Supply chain management</li> <li>○ Training and education</li> <li>○ Customer privacy</li> </ul>	<ul style="list-style-type: none"> <li>○ Codes of conduct and business principles</li> <li>○ Accountability</li> <li>○ Transparency and disclosure</li> <li>○ Executive pay</li> <li>○ Board diversity and structure</li> <li>○ Bribery and corruption</li> <li>○ Stakeholder engagement</li> <li>○ Shareholder rights</li> </ul>
European Framework	<ul style="list-style-type: none"> <li>○ GHG emissions</li> <li>○ Energy use and efficiency</li> <li>○ Water, air, soil pollutants</li> <li>○ Water use and management</li> <li>○ Land degradation, desertification, soil sealing</li> <li>○ Waste management</li> <li>○ Biodiversity and protection of healthy ecosystems</li> </ul>	<ul style="list-style-type: none"> <li>○ Implementation of fundamental ILO Conventions</li> <li>○ Inclusiveness/Inequality</li> <li>○ Diversity</li> <li>○ Insufficient whistleblower protection</li> <li>○ Human rights policy</li> <li>○ Investment in human capital and communities</li> </ul>	<ul style="list-style-type: none"> <li>○ Exposure to controversial weapons (land mines and cluster bombs)</li> <li>○ Anti-corruption and anti-bribery policies</li> <li>○ Trafficking in human beings</li> </ul>
Industry	<ul style="list-style-type: none"> <li>○ Consumption of materials, energy and water</li> </ul>	<ul style="list-style-type: none"> <li>○ Quality and innovation in customer relations, rights of the customers to gain information</li> </ul>	<ul style="list-style-type: none"> <li>○ Set of rules or principles defining rights, responsibilities, and</li> </ul>



	<ul style="list-style-type: none"> <li>○ Production of GHG emissions, other emissions to air and water</li> <li>○ Production and management of waste and waste water</li> <li>○ Protection of biodiversity</li> <li>○ Research and development in low-carbon and other environmental technologies</li> </ul>	<ul style="list-style-type: none"> <li>○ about environmental issues (e.g. climate and social consequences of global warming with which they can make responsible decisions)</li> <li>○ Human rights</li> <li>○ Labour practices: human resources management and employee relations, diversity issues, gender equality, workplace health and safety considerations</li> <li>○ Access to credit and financial inclusion</li> <li>○ Personal data security</li> </ul>	<ul style="list-style-type: none"> <li>○ expectations between different stakeholders in the governance of the entity/sovereign</li> <li>○ Values that determine the definition of governance: executive pay, Board of Directors independence, compositions and structure, shareholder rights, internal audit</li> <li>○ Compensation and bribery and corruption</li> <li>○ Integrity in corporate conduct/conduct frameworks</li> </ul>
<b>Common areas</b>	<ul style="list-style-type: none"> <li>○ Water use and consumption</li> <li>○ Biodiversity</li> <li>○ GHG emissions</li> <li>○ Deprived landscape revitalisation</li> </ul>	<ul style="list-style-type: none"> <li>○ Labour and workforce considerations</li> <li>○ Human rights</li> <li>○ Inequality</li> <li>○ Gender rights</li> <li>○ Minority rights</li> </ul>	<ul style="list-style-type: none"> <li>○ Rights and responsibilities of directors</li> <li>○ Remuneration</li> </ul>

Source: EBA Discussion Paper on Management and Supervision of ESG Risk for Credit Institutions and Investment Firms

**Table 2**  
**Examples of loans in sustainable securitisation portfolios**

ABS Type	Loan type
RMBS	Mortgage loans to finance newly built energy efficient houses, renovations to improve house insulation, installation of heat pumps, rooftop solar panels and other energy and water efficiency upgrades
Auto ABS	Loans and leases to finance electric or hybrid vehicles or vehicles which meet fuel efficiency and low emission standards
SME	Loans to finance small business sustainable projects such as organic foods, products made from recycled materials, batteries and storage products or innovative technology which improves energy efficiency
Corporate	Loans to finance infrastructure projects such a wind power station, water and waste management projects; low-emission public transport, electric vehicles charging stations, and other energy efficient projects
CMBS	Mortgage loans to finance acquisition or improvement of social or student housing, hospitals, community or educational centres; commercial rooftop solar energy loans;
ABCP	(Re)financing trade receivables generated by companies which are transitioning to more sustainable business models such as auto manufacturers, manufacturers of household equipment or non-toxic cleaning products
CLO	CLO managers apply “negative screening criteria” and will not invest in loans backed by companies that derive a portion of their revenue from certain industries such as tobacco, extraction of oil & gas, coal and weapons

## ANNEX A

### Securitisation ESG Due Diligence Questionnaire

#### Introduction

This Due Diligence Questionnaire (DDQ) is intended to provide a suggested framework for market participants' ESG due diligence with respect to securitisation transactions. It is not meant to be mandatory or comprehensive, nor to cover all ESG considerations. It is intended to complement, rather than replace, existing due diligence processes and to suggest relevant considerations, where appropriate, that should be taken into account in this context.

We acknowledge that ESG factors and practices will vary depending on the issuer and/or originator, type of the underlying assets, geographical location, and other factors, and that parties will require some level of flexibility in following or applying these or any other such considerations. Parties should carefully consider which of the items below are material for the particular securitisation transaction.

#### Populating the questionnaire

In case of information already disclosed elsewhere (for instance in the investor presentation, prospectus or marketing materials), please insert the reference that answers the particular question; or insert 'not applicable' against any questions that are not relevant to that particular transaction

#### Part 1 General ESG Questions

1. Please summarise the ESG credentials of the transaction generally.
2. Are there any structural elements of the transactions which contribute to its ESG credentials (such as pricing linked to ESG performance)?
3. Do the assets of the securitisation portfolio have ESG credentials (if applicable, please see Part 2).
4. Does the originator and/or servicer of the securitisation portfolio have ESG credentials (if applicable, please see Part 3)?
5. If the sponsor of the transaction is a separate entity from the originator and/or servicer (e.g. in the case of legacy assets with a new owner), does the sponsor have ESG credentials? (if applicable, please see Part 3). How much risk does such sponsor retain in the transaction?

#### Part 2 ESG Credentials of the Securitisation Portfolio

1. Please describe the ESG credentials of the portfolio, such as:
  - is the portfolio [wholly/partially] financing ESG assets (e.g. properties with a particular EPC label, electric vehicles etc.)?
  - have [all/a portion of] the loans been lent with an ESG purpose (e.g. a solar panel loan and/or a loan to an SME with ESG credentials, a loan to finance social housing or student accommodation etc.)?
  - does the transaction improve social infrastructure (schools, hospitals, community hubs etc.)?
  - are there any ESG KPIs related to or contained in the underlying assets?
2. Please describe any applicable ESG standard that has been applied (e.g. EPC data, emission standard) and how the assets in the portfolio meet that ESG standard.
3. How has the ESG data relating to the portfolio been tracked and reported on?
4. Has the ESG data been verified internally and/or by a third-party verification agent and/or second party opinion provider? (provide a third-party opinion if available)
5. Does the issuer (or servicer on its behalf) assess, monitor and report the ESG performance of the underlying assets during the lifetime of the transaction?

6. Do the underlying assets comply, if applicable, with all relevant environmental permits/licenses/consents? Do the asset benefit from any environmental or other ESG certification and if so which one.

### **Part 3 ESG Credentials of the Originator and/or Servicer and/or Sponsor**

1. Please provide a detailed description of how the assets underlying the securitisation transaction are originated and serviced
2. Please describe your overall environmental, social and governance strategy or policy, e.g.:
  - policies related to efficiency targets on waste/packaging/water/energy
  - policies related to climate change factors
  - policies related to environmental assessment of new loans
  - policies related to monitoring of the carbon impact of the originated/ serviced loans
  
  - policies related to Health and Safety, anti-discrimination, diversity, social inclusion, child and/or forced labour and Human Rights
  - policies related to data privacy and security polices and related issues
  - polices related to workplace incidents (including record keeping /statistics)
  - polices related to salary gender gap and local minimum wage standards
  
  - policies and safeguards against illegal practices (including, but not limited to, bribery, corruption, whistleblowing, money laundering and fraud) and any history related to such incidents
  - policies related to corporate governance and/or ethical related enforcement/litigation or employee claims or breaches related to issues such as anti-bribery, corruption, unfair labour practices, human rights abuses, and other malpractices
  - policies related to responsible marketing.
3. Do you take any steps to reduce CO2 emissions? If yes, please describe them.
4. Please provide the latest carbon footprint figure if available or CO2 tonnes/sales (\$m)
5. Do you disclose environmental metrics? (e.g. in ESMA reporting)
6. What are your lending standards (do the lending standards and affordability checks follow industry guidelines)? Are there any exceptions to underwriting guidelines? If yes, what is the proportion?
7. Which, if any, charity initiatives, are you active in?
8. Do you lend to underserved communities?
9. What is your affordability strategy? (e.g. interest rate stresses)
10. Please describe your underwriting policy (limits, customer's credit history, exceptions, verification of income, valuation, origination channel, industry regulations, socio-economic circumstances of borrowers)
11. What is your arrears and forbearance strategy? (e.g. which forbearance measures do you use? What measures are used the most? Is there any incentive scheme for the arrears management team?)
12. What is your complaints handling process?
13. Do you have a collections policy?
14. Do you have a retention strategy for borrowers? What is the retention rate you forecast?
15. What is your strategy for distressed borrowers?
  
16. Do you provide any training, in particular, on lending and compliance?
17. Are originating teams' compensation linked to the amount of products sold?
  
18. Have you been subjected to any material sanctions by your regulator in the last 2 years and is any penalty still ongoing?

19. Have you been in the last 2 years a subject of any material complaints and/or any litigation regarding how you conduct your business or any social related complaints/claims/enforcement actions associated with employees or key stakeholders?
20. What is the composition of your board of directors (i.e. nationality, number of women, independent and ethnic minority directors)?
21. What are your standards related to the level of direct board responsibilities for ESG matters?
22. Is your CEO's pay linked to financial performance?
23. Is there a CEO-chairman separation?
24. Is there an independent risk committee?
25. Do shareholders have equal voting rights? Or do shares have different voting rights?
26. Did all board members attend >75% of board meetings in the recent calendar year?
27. Has your company had a qualified/adverse audit opinion in the last 2 years? If yes, please provide any relevant information on your auditor, including any material disputes between you and the auditor, and/or any material restatement of your financial statements.
28. Have there been any penalties for late/incorrect financial statement filings?
29. Are you a signatory to UNPRI? Do you have an ISO Certification?
30. Is your company or group currently named on the UN Global Compact violators list?
31. What is your staff retention/turnover?
  
32. Are there any KPIs on ESG issues (if so, which) or are you otherwise monitoring particular metrics?
33. Please provide any ESG policy or CSR Report, if available.